



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 4, 2006 REPORT NO. 06-137

ATTENTION: Council President and City Council
Docket of October 9, 2006

SUBJECT: Contracts Business Process Reengineering (BPR)

REFERENCE: Final Report on the Contracts Reengineering Study

REQUESTED ACTION:

1. Accept the Report from the Mayor on the Contracts Business Process Reengineering
2. Authorize the City Auditor and Comptroller and the City Attorney to prepare the necessary documents to implement the BPR recommended organizational changes:
 - Authorizing the combination of Contracting (department 041), Purchasing (department 057) and Purchasing & Contracting (department 102) to reflect the Business Process Reengineering of Purchasing & Contracting and allow transfers of appropriations per Section 4 of the Appropriations Ordinance.
 - Authorizing the Auditor and Comptroller to adjust expenditure appropriations to reflect the Business Process Reengineering of Purchasing & Contracting.
 - Authorizing the Auditor and Comptroller to adjust revenue appropriations to reflect the Business Process Reengineering of Purchasing & Contracting.

STAFF RECOMMENDATION:

1. Accept the Report on Contracts Business Process Reengineering and authorize implementation of the organizational changes described therein.

SUMMARY:

The Mayor has commenced Business Process Reengineering (BPR) efforts to improve efficiencies, reduce the cost of City government and to maximize the services offered to our residents. BPR focuses on significantly streamlining work processes (activities, services or functions) for substantial improvement and reorganizing functional work groups and positions.

On July 31, 2006, the City Council adopted Ordinance O-19523, establishing a policy for the implementation of Business Process Reengineering Results (Report to City Council No. 06-094). In December, 2005, prior to the development and adoption of the Business Process Review (BPR) Ordinance, City management and staff began a study of the City's contracting processes. The methodology employed in this Contracts Reengineering Study became the template for the development of the BPR Guidebook Manual and the BPR Ordinance now used City-wide.

The Contracts Reengineering Study

The purpose of the Contracts Reengineering Study, or BPR, was to review and re-engineer the City of San Diego's procurement processes and procedures; develop recommendations to improve the efficiency and effectiveness; and to improve the quality and accountability of the procurement process. The City of San Diego's contracts for good, services, consultants and construction have historically been handled through a decentralized approach, with authorities spread across all levels of the organization. This has resulted in a system that is duplicative in efforts, lacking a centralized tracking system, and various levels of oversight.

The contracting processes for the City of San Diego are directed by several governing documents including the City Charter, Municipal Code, Council Policies, Administrative Regulations and Departmental Instructions. Purchase orders, professional and non-professional service agreements and public works contracts are the procurement instruments used for the acquisition of goods, services and construction.

There are approximately 25 City departments that submit purchase requests to the City's Purchasing Division for goods and maintenance services. The Engineering & Capital Projects (E&CP) Department initiates and prepares contracts for all of the City's public works construction projects, with the exception of projects managed by the Metropolitan Wastewater Department (MWWD) which provides similar contracting functions for its own construction needs. Department Directors acquire other professional and non-professional services and construction through contracts and agreements administered within their respective departments or through service agreements with other departments that have contract administration expertise.

In February 2006, it was determined that approximately 3400 different contracts exist across the City. All of these contracts are awarded and overseen by various contract managers, with different levels of expertise and experience in contract management.

Study Findings

The Contracts Reengineering study was completed in March, 2006. The study concluded with a written report outlining the findings of the team:

- 1) Lack of a comprehensive list of contracts city-wide;
- 2) Inconsistent processes and procedures amongst City departments;
- 3) Lack of a centralized data management system;
- 4) Inadequate internal controls;

- 5) Lack of adequate staff training;
- 6) Documents need to be consolidated and approval processes streamlined;
- 7) Must be proper checks and balances in the system.

Study Recommendation

To address the findings delineated above, the taskforce presented as its primary recommendation the creation of a centralized contracts department to centralize, consolidate and streamline procurement resources and processes associated with contract pre-award operations for commodities, services, consultant and construction into one department. Specific functional areas for noted inclusion were:

- Purchasing
- Construction and A&E Contracts
- Service Agreements
- Acquisition Planning
- Managed Competition (When approved by voters)
- Equal Opportunity Contracting Functions
- Procurement Management Review (Checks and Balances)

During the fiscal year 2006/2007 budget process, the City Council approved the creation of this centralized contracting department, consistent with the study recommendation. The creation of the contracting department, known as Purchasing & Contracting set the framework to consolidate contracting staff and to implement contracting reforms.

Restructuring Activities

The centralized contracting model calls for contract and administrative specialists from various departments to be consolidated into this new office. Subject matter experts focusing on the technical aspects of preparing contract specifications and statements of work will remain in their respective departments. All pre-award administrative activities, including the award of a contract or service agreement will be managed by this new department.

The current action before City Council allows for the fiscal realignment of staff resources into this Council approved contracting department. Once the City Council approves the fiscal execution of the new Purchasing & Contracting department, staff will complete the following restructuring activities, under the purview and direction of the Mayor:

- Consolidation of all City forces related to pre-award contracts. Located at one location, at Civic Center Plaza, second floor, this new team will be responsible for all contracting needs of the City for commodities, construction, consultants and services. Some of the duties and staff from Equal Opportunity, Engineering and Capital Projects, Purchasing Water and Metropolitan Wastewater become a part of this new team.
- Creation of RFP and other Strategic Procurement teams, to begin the streamlining of processes and procedures, creation of templates and standards, and the introduction of citywide training in procurement activities.

- Centralization of all data related to city contracts with ability to produce reports and searches of information in real-time demand.
- Consolidation and organization of all Citywide Service Level Agreements, with city wide standards and reporting structures.
- Restructuring of the Office of Equal Opportunity Contracting (EOC) to become a part of the centralized contracting department (see discussion below).
- Expansion of existing streamlined procurement processes and payment methods, such as the existing procurement card program.

Equal Opportunity Contracting Restructuring

Concurrent with the Contracts Reengineering Study, a restructuring of the Office of Equal Opportunity Contracting (EOC) was occurring. The functions within EOC have been studied and realigned in a manner that creates efficiencies and weaves the principles and practices of inclusion and diversity into the fabric of pre-award and post-award contract administration. Restructuring efforts to date include:

- The monitoring of subcontractor and labor compliance has been combined into one work unit.
- Due to the expense associated with certifying Disadvantaged Business Enterprises (DBE) on behalf of the State of California (the City is not reimbursed for this service); and as the State of California is available to provide certification services for San Diego county, the DBE certification program has been turned over to the State of California, Department of Transportation.
- Monitoring of monthly invoicing reports is shifting to the construction managers.
- Outreach to small and disadvantaged firms has been shifted from the responsibility of one staff position to the entire team.

Additional Recommendations

The Contracts Reengineering Study included additional recommendations that form a blueprint for efficiency and effectiveness for the centralized contracting department. Many of the recommendations (examples noted above in the report section titled Restructuring Activities) are within the purview of the Mayor and, as stated, will be implemented. Other recommendations call for delegating some of the authority currently reserved for the City Council in executing contracts of certain types and/or dollar amounts (increased approval thresholds) and for increasing purchase order thresholds. After further review, it has been determined that it would be prudent to stand the department up and develop clearly articulated protocols, processes and procedures prior to consideration of increasing thresholds. Such threshold increases are not recommended at this time but may be revisited in a future phase of the contracts reengineering initiative. Any future discussion of increased approval authority for staff shall be brought back to City Council for consideration. The implementation status of all recommendations from the previously distributed Contracts Reengineering Study Report are shown in Attachment 1.

FISCAL CONSIDERATIONS:

The realignment of pre-award contract administration into a centralized contracting department eliminates redundancies in both processes and staffing, resulting in the net elimination of eleven (11) positions at a savings of \$907,054. All functional areas of contract administration (i.e. advertising, awarding and equal opportunity compliance) will continue to be performed either by the centralized team on behalf of client departments or, by partners as discussed in relation to the EOC restructuring.

The distribution of budgetary and staffing changes, by department is as follows:

| Final Tally | | Positions | Expenditures |
|---|-------------------------------------|-------------------|-------------------|
| Dept Number | Budget Department | Changes FY06-FY07 | |
| 041 | EOC Division*** | 2 | \$285,544 |
| 057 | Purchasing Division | -2 | \$126,536 |
| 102 | Purchasing & Contracting Department | -9 | -\$919,472 |
| 545 | A&EC Division | 4 | \$275,462 |
| 850 | WSD Division | 1 | \$82,850 |
| 760 | Water Department** | -1 | -\$126,670 |
| 777 | MWW Department** | -4 | -\$457,929 |
| 270 | Public Safety | -2 | -\$173,375 |
| TOTAL NET REDUCTION* | | -11 | -\$907,054 |
| ***EOC changes include reclassification of 11 positions | | | |
| **Not General Fund. | | | |
| *Total Net Reduction is spread across all stakeholder departments through various restructuring processes. Additions shown in table also result of spreading changes across stakeholder departments | | | |

Attachment 2 provides greater detail on the budgetary and staffing changes summarized in the above table.

NOTE: The nine position reduction in Purchasing & Contracting Department (P&C) staff is a corrective action. When the department was created in the fiscal 2006/2007 budget, positions were transferred into the department from Engineering & Capital Projects (ECP) to staff it. During the implementation phase of the reengineering effort, it was determined that the positions transferred to P&C were not the appropriate positions and/or were not transferred to the correct department number. This action transfers five (5) of those positions back to ECP and four (4) of them to department 041, the Public Works Contracting Division (formerly Equal Opportunity Contracting) of P&C.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

March 29, 2006

Informational report on the plan for departmental restructuring to the Committee on Budget and Finance of the City Council of the City San Diego.

June 28, 2006

Report accepted by the Committee on Budget and Finance of the City Council of the City San Diego providing an update on the status of the Contracts Business Process Reengineering Initiative.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Extensive Business Process Reengineering effort and study was conducted. Interviews were held with key internal and external stakeholders, as well as benchmarking with other similar municipalities.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Customer departments and outside vendors, consultants and construction firms will have one centralized contact for all City contracting opportunities and information. The impacts will be the information is at one location, as well as standardization and streamlining of city contracts and processes.

R.G. Reynolds
Assistant Chief Operating Officer

A COPY OF THE FINAL REPORT ON THE CONTRACTS REENGINEERING STUDY IS AVAILABLE FOR PUBLIC VIEWING AT THE OFFICE OF THE SAN DIEGO CITY CLERK.

Attachments: [1. Contracts Reengineering Study Matrix](#)
[2. Summary of Budgetary Impacts](#)